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INDONESIA'S TEXTILES AND APPAREL: THE CHALLENGES AHEAD

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International rules governing textiles and apparel trade are undergoing transformation. The Multi-Fibre Arrangement (MFA) is being phased out, and as of January 2005 textiles and apparel trade will be conducted under World Trade Organization (WTO) rules. For Indonesia, this presents challenges and opportunities. The global trading system is increasingly seeing the introduction of preferential trade agreements (PTAs) that liberalise trade among members but discriminate against non-members. Major markets are negotiating new PTAs that divert trade away from low-cost non-member producers such as Indonesia. China's entry into the WTO allows producers there to take advantage of liberalised quotas and the integration of textile and apparel products into the tariff-based trade system as of 2002. With rising domestic production costs, increased local government interventions and poor tax administration, Indonesian producers face a 'double squeeze'. This paper outlines the key challenges confronting the sector and makes recommendations for sustaining exports in coming years.

INTRODUCTION

The textiles and apparel sector is of critical importance for the Indonesian economy. Before the onset of the economic crisis in late 1997, the sector was a leading source of growth in manufacturing output, exports and employment.[1] Even today, it would be a serious mistake to regard it as a 'sunset industry'.

Nevertheless, there are considerable challenges, both internal and external, to be overcome. Against the background of an increasingly liberalised and competitive international market, Indonesian producers must now reconcile falling unit (dollar) values against rising supply-side costs. On the external front, a range of factors can be expected to put significant pressure on Indonesia's market share in the coming years. These include the ongoing dismantling of the quota system governing much global trade in textiles and apparel; China's accession to the World Trade Organization (WTO) and its increasingly dominant position as a supplier of textiles and apparel; the emergence of other low-cost producers such as Vietnam, Bangladesh, Cambodia and Pakistan; and the recent proliferation of preferential trade agreements and Indonesia's continuing exclusion from them.

Indonesia's ability to respond to these demand-side pressures will be constrained by rising domestic transaction costs. Under decentralisation, textile and apparel producers are increasingly burdened with new taxes, charges and other exactions as local governments

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TABLE 1 *Stages in the Phase-out of US and EU Textile and Apparel Quotas*

Stage		Share of Trade to be Quota-free (% of 1990 import quantity) (1)	Increase in the Quota Growth Rate[a] (% p.a.) (2)
I	1995-97	16	16
II	1998-2001	17	25
III	2002-04	18	27
IV	2005 (final)	49	No quotas left

[a]For example, starting with a growth rate set at 6% p.a. before the ATC, quota growth rates would increase by 16% to 6.96% in 1995–97 (6% + [6 * 16%]), then again by 25% to 8.7% in 1998-2001, and by 27% to 11.05% in 2002–04.

Sources: Minor (2002); Office of Textiles and Apparel, US Department of Commerce.

seek to increase own-source revenues. In addition, new freedoms to organise and engage in collective bargaining have been seized upon by labour unions, resulting in numerous industrial disputes and lost work-days. Higher labour costs in post-crisis Indonesia arise from sharp increases in minimum wages and controversial rulings on severance pay.

THE AGREEMENT ON TEXTILES AND CLOTHING AND THE DISMANTLING OF QUOTAS

Trade-distorting quotas have governed trade in textiles and clothing for most of the past half-century. The WTO's Agreement on Textiles and Clothing (ATC), negotiated during the Uruguay Round and effective since January 1995, is the basis for reintegrating trade in textiles and apparel into the world trading system, which now generally prohibits non-tariff barriers such as quotas. Under the agreement, the transition to quota-free textiles and apparel trade was to occur over a 10-year period, ending on 31 December 2004. After decades of trade-distorting regulation, exporters are entering a new era of price and quality-based competition, with many producers that have existed purely as a result of their access to quotas being put out of business.

The ATC provided two mechanisms for eliminating quotas, phased removal of quotas (column 1 in table 1) and increasing growth rates on remaining quotas (column 2 in table 1),[2] both to take place in four stages. The first two stages had no sizeable effects on producers or importing markets because quotas were removed principally on products that had not been constrained by quotas. As a result imports were generally already below the prescribed levels. Changes between 2002 and 2005 are likely to have a much greater impact. Indeed, tariff lines accounting for 49% of trade (based on 1990 import volume), including the most restrictive quota categories, will be liberalised only in January 2005. At the same time, growth rates on existing quotas will have nearly doubled over their pre-1995 levels.[3]

For each exporting country, the integration schedule has different impacts depending on the composition of exports. For example, 52% ($1.5 billion) of US imports of Indonesian textiles and apparel were unconstrained by quotas in 2001 while 48% ($1.1 billion) were constrained.[4] Virtually all of the latter will face competition from other quota-constrained countries when the quotas are removed.[5] Moreover, the majority of these quotas will not be removed before 1 January 2005.[6] In the interim period, 2002–04, Indonesia will enjoy one of the highest quota growth rates among the constrained suppliers, averaging 11% per annum starting in 2002.[7]

In contrast, nearly 75% of Indonesia's $1.5 billion in non-quota-constrained products will face increasing competition from constrained low-cost competitors beginning in 2002 as some quotas are eliminated (column 1 in table 1) or loosened (column 2).[8] It seems likely that Indonesia will lose sales and market share to these competitors as they enjoy more liberal market access.[9] We estimate that 38% of the US imports from Indonesia that enjoy unconstrained access will be subject to intense competition from the quota-constrained producers from January 2002 when quotas are eliminated in accordance with the integration schedule.[10]

PREFERENTIAL TRADE AGREEMENTS

Preferential trade agreements cover an increasing share of the total volume of world trade, and few industries can equal textiles and apparel for their proliferation.[11] Since 1984, the US and the EU have used preferential trade agreements in textiles and apparel as a means to move apparel production offshore. These have also been used to protect domestic textile industries, or as a negotiating chip to obtain market access in other industrial areas.

In 1995 an estimated 15% of apparel imports entered the US under various preferential programs. By 2001, fully 21.1% of US apparel imports were under preferential trade agreements such as the North American Free Trade Area (NAFTA). An additional 16.7% entered the market under the Generalised System of Preferences (GSP) and the production-sharing program.[12] Under this program, apparel imports produced using designated textile materials receive duty-free treatment.[13] Indonesia is almost completely outside the preferential arrangements in the US market and is similarly excluded from the expanding preferential trading networks of the EU. As a result, its textile and apparel exports are vulnerable to trade diversion to higher-cost producers that receive substantial margins of preference in these markets.

For example, the US has recently extended preferences to a number of Sub-Saharan African countries under the African Growth and Opportunity Agreement (AGOA). In contrast to the overall contraction of imports in value terms, imports from AGOA countries showed positive growth in the first half of 2002. In volume terms, a number of AGOA countries recorded export growth rates of over 50% in the US market in the first half of 2002.

Both the US and the EU are negotiating new preferential trading arrangements or are enlarging existing trade blocs. In the case of the US, the hemisphere-wide Free Trade Area of the Americas would extend generous tariff preferences to major textile and apparel exporters such as Brazil. The EU is negotiating agreements with countries like Egypt that would divert trade in textiles away from East Asia and displace Asian apparel exports in the EU market.

TABLE 2 *Effective Duties Paid on US Apparel Imports in 2001*
(%)

Country/Country Group	Duty
North American Free Trade Area	0.5
Caribbean Basin Initiative	5.9
African Growth and Opportunity Agreement	10.3
Andean Trade Preference Act	15.5
Indonesia	18.2
China	12.0

Source: United States International Trade Commission (USITC) database.

US tariff preferences provide a significant margin of preference for members as opposed to non-members.[14] Effective duties paid on US apparel imports in 2001 ranged from a low average of 0.5% for members of NAFTA (Mexico and Canada) to a high of 18.2% for Indonesia (table 2). Effective duties on cotton woven apparel averaged 10.2% for the world but were as low as 0.2% for NAFTA members, and as high as 15–17% for developing countries outside the preferential agreements, including Indonesia.[15] For woven apparel made of synthetic fibres, the global average for duties paid on US imports was 12.5% in 2001 but just 0.9% for NAFTA and over 20% for Indonesia.

The preferences extended to Pakistan in the EU and US textile and apparel markets because of its security cooperation in the fight against terrorism could also erode the market share of Indonesian products in these large markets. Pakistan competed with Indonesia in 34 of the top 45 US imports of textiles and apparel from Indonesia by US quota category (ranked by value of imports in 2001), and filled 90% or more of its quota in seven of these categories.[16] Hence, any relaxation of US quotas on a preferential basis is likely to lead to an increased market share for Pakistan in these product categories.

Potentially, some of the new regional and cross-regional free trade agreements could have a large impact on Indonesia's textile and apparel exports. Trade diversion effects are likely to be important where large markets for Indonesian exports are subject to penetration on a preferential basis by partners with substantial capacity in textiles and apparel. Since NAFTA was established in 1994, for example, Mexico's share of the US apparel market has tripled, and this has come largely at the expense of Asian producers.

CHINA'S ACCESSION TO THE WTO

The greatest threat to Indonesia's market share in the next few years arises from the simultaneous accession of China to the WTO and elimination of quotas. Indonesia's share of key markets in the US and Europe will no longer be protected by quotas but will come under increasing pressure from tariff-based competition with China (table 3).

China has a significant competitive advantage in textiles and apparel, including a highly mobile and cheap labour force and economies of scale in

TABLE 3 *Relative Shares of China and Indonesia in the Global Textiles and Apparel Market*[a]

	North America		Western Europe		Other Industrialised[b]	
	1995	2000	1995	2000	1995	2000
Total market ($ billion)	57.4	84.1	128.0	131.2	29.0	28.4
Share of Indonesia (%)	1.7	1.9	2.9	2.9	2.8	2.4
Share of China (%)	6.1	7.8	14.5	13.1	45.9	59.2

[a]Textile and apparel imports are defined as SITC (revision 2) 65 and 84.

[b]Includes Japan, Australia, New Zealand and Israel, but clearly dominated by Japan.

Source: World Bank TradeCAN database, 2002.

the domestic market. In contrast to Indonesia, Chinese producers have shown an increasing ability to access investment (including new capital goods and technology) from offshore. Moreover, worker productivity is increasing rapidly. Over the 1995–99 period, structural reforms led to an increase in output of 37% and a fall in employment of 27% (UN 2002). Also, Chinese factories tend to use higher-quality materials, enabling them to gain access to the lucrative upper-end consumer markets for apparel. Over one-half of China's total exports of apparel are made from high-quality imported fabrics, mainly from Korea, Taiwan and Japan.

In a less distorted international trading framework, these advantages should translate into increased market share. A World Bank study of China's accession to the WTO concludes that by 2005 China will command nearly 45% of the global market in textiles and apparel (Ianchovichina, Martin and Fukase 2000). In the medium term, China's competitive position is likely to be enhanced as apparel manufacturers that had previously located production in countries with unused quotas shift resources to the Chinese mainland. Producers are likely to take advantage of the new international trading arrangements as the high tariffs imposed by China on textiles, wool and inputs for synthetic fibres progressively fall, making final apparel products even cheaper (McGregor 2002; Larmer 2002).[17]

Export-oriented producers in Indonesia experienced a major boost in their international competitiveness with the massive depreciation of the rupiah between July and December of 1997.[18] In contrast, the Chinese currency has been firmly pegged to the dollar at a rate of 8.28 yuan since before the crisis began. However, between 1997 and 2001, the CPI and GDP deflator indices rose by over 120% and 130% respectively in Indonesia but declined by around 1–2% in China (ICSEAD 2002). The inflation differential with China has therefore eroded the competitiveness of Indonesian exports compared with those of China.

An indication of how China might perform in a quota-free world can be drawn from developments in the Japanese market, where apparel imports have not been restricted by quotas, and where China's overall share of apparel

TABLE 4 *Performance of Indonesia and China in the US Textiles and Apparel Market*[a]

Sector	China			Indonesia		
	% Change (2001/2002, Jan–Jul)[b]	Market Share (%)[c]		% Change (2001/2002, Jan–Jul)[b]	Market Share (%)[c]	
		Jan–Jul 2001	Jan–Jul 2002		Jan–Jul 2001	Jan–Jul 2002
Non-apparel items						
Volume	445.0	5.9	24.3	2.7	6.8	5.3
Value	120.5	16.0	33.9	–24.0	7.0	5.1
Fabrics						
Volume	952.3	0.2	1.4	9.8	2.2	1.8
Value	271.0	0.7	2.2	–4.4	1.6	1.3
Apparel						
Volume	161.8	5.2	13.5	1.9	4.0	4.0
Value	73.1	7.6	13.9	–1.1	4.3	4.5
Total (22 items)						
Volume	303.5	4.0	13.3	3.5	4.3	3.8
Value	89.4	8.5	16.4	–7.1	4.5	4.3

[a]For 22 quota categories at least partially integrated in 2002, as discussed in the text.

[b]Year on year.

[c]Year to date.

Source: Office of Textiles and Apparel, US Department of Commerce.

imports increased from 61% in 1996 to just under 80% in 2001. The key question is whether China will reach a similar level of dominance in the other two major markets that are to liberalise textiles and apparel, namely the EU and the US. Given that the EU has many preferential agreements with Africa, Eastern Europe, Sri Lanka, Pakistan and Bangladesh, and that EU quotas tend to be less restrictive than those in the US, we would not expect a major increase in China's market share as a direct result of the elimination of quotas. With growth in the Japanese and Western European markets remaining relatively flat, and Japan's market already saturated with imports from China, this leaves the US as the likely destination for China's expanded share of global trade in textiles and apparel.

Early indications of how China may perform in the US market after the complete elimination of quotas in 2005 can be drawn from the product categories liberalised at the beginning of 2002. Table 4 provides information on the relative performance of China and Indonesia in the US import market for 22 quota categories at least partially integrated in 2002, spread across three sectors: non-apparel (three categories including luggage and other synthetic fibre manufacturing), fabrics (three items, namely knitted fabric, non-woven fabric and special fabric) and apparel (16 categories including hosiery, bras, handkerchiefs, gloves, other cotton apparel and other apparel made from synthetic fibres).

An observation common to both countries is that volumes have increased. Values have grown less than volumes, indicating falling unit values (a proxy for prices). In all three sectors China has significantly increased its market share, in both value and volume terms, although overall its current market share in fabrics remains low. Indonesia, in contrast, has seen its market share in fabrics and non-apparel items fall while remaining stable in apparel.

In aggregate, China's share by value of the US market for these liberalised textile and apparel imports increased from 8.5% to 16.4% whereas the Indonesian share fell from 4.5% to 4.3%. As most quotas have been 'back-loaded' to the final stage of the quota liberalisation process, there may be even greater gains in China's market share in 2005. Of further concern for Indonesia and other producers is the possibility that the combination of rapid increases in import volumes and sharp reductions in prices may trigger the use of trade remedies such as anti-dumping and safeguard measures in both the EU and the US.[19]

SUPPLY-SIDE PROBLEMS AND CHALLENGES

There are fears that Indonesia's ability to respond to the many demand-side challenges discussed in the previous section is constrained by more rapidly rising domestic costs than in competing countries. Over the 2001–02 period the general price level (CPI) rose by 24%, with significant increases in the prices of electricity (102%), fuel (52%), diesel (159%), water (27%) and transport (32%).[20]

Recent increases in minimum wages set by the provincial government (UMP) have been particularly burdensome for the textiles and apparel industry. In Jakarta and Bandung, which together accommodate a majority of national producers registered with the Ministry of Industry and Trade, the minimum wage rose by 49% and 17% respectively in 2000, and 39% and 34% in 2001.[21] Not only has the UMP increased significantly in major industrial centres but a stricter compliance regime has emerged, supported by trade unions that are more active than they were in the past.

Other labour policy measures have also caused employment costs to rise. For instance, a recent ruling controversially extended severance pay coverage to those leaving work voluntarily and those dismissed for criminal activity. A new employment law currently being considered by parliament includes provisions that will further increase employment costs, such as salaries to be paid to workers on strike or detained while awaiting trial, and limits on the hours worked on night-shifts. According to the Indonesian Textile Association (API), increased militancy by unions has led to an increase in industrial action over the past three years.[22] Disruption is caused not only by strikes, but also by conflict between competing unions in the workplace.

Increased input and labour costs have a significant impact on textile and apparel producers. For example, a 20% real increase in fuel and energy costs would translate into an increase of around 1–1.2% in total textile production costs, while a real rise of 20% in labour costs in apparel would raise total costs by around 4%.[23]

The rising burden of local taxes and charges is another problem for producers. Concerned to increase own-source revenues, local governments have been quick to legislate new taxes and charges.

Many are valid and appropriately priced. Many others, however, have little or no legal basis and are nothing more than nuisance taxes. In most cases they are either user-benefit charges (*retribusi*) for services of little or no value, or service fees (such as licences and permits) that are priced well beyond the level required for cost recovery.

Nuisance taxes appear to be a particular problem in West Java and Jakarta. There are frequent reports in the media of factories relocating to other provinces, in particular Central Java, where the regulatory environment is considered more conducive (e.g. *Bisnis Indonesia*, 12/4/02: 9), and of factory owners closing down production operations in favour of trading activities (*Bisnis Indonesia*, 23/9/02: 3). Many nuisance taxes target employment and labour-related activities.[24] Post-decentralisation, there is also increasing overlap across levels of government in the imposition of these charges, with lower-level governments now imposing levies that were once imposed exclusively by the central government.

The recent imposition of a value added tax (VAT) on cotton imports is another problem confronting textile and apparel producers. Since the tax was first implemented in 1983, imported cotton has been interpreted as being VAT exempt. Recently this interpretation was reversed, but retroactively, so that producers who had on-sold their output had few avenues to recover their VAT outlays. For exporters, the more general problem is the delay in the VAT restitution process, which significantly raises their working capital costs and limits their cash flow.

Issues of quality will also continue to constrain export competitiveness. Textile producers are unable to penetrate higher-end markets effectively, owing in large part to their poor dyeing and finishing capacity. Apparel producers have similar access problems as a result of the continuing high tariffs on quality imported fabrics. More generally, most textile and apparel producers have little or no R&D and design capacity, merely responding to orders that provide all the design specifications and other information required for production. The sector's lack of innovation and technological capacity is exacerbated by an ageing capital stock. Recent reports estimate that the average age of machinery now exceeds 20 years for spinning machines, 15 years for weaving machines, 10 years for dyeing machines and seven years for machinery used in apparel manufacture (*ICN*, 25/6/02: 40).

CONCLUDING THOUGHTS AND FUTURE DIRECTIONS

A number of developing countries are moving swiftly to implement new strategies aimed at coping with the competitive challenge from China and the changing international trade regime governing textiles and apparel.

For example, India is pursuing a revitalisation program for apparel by establishing 15 parks modelled on China's special economic zones. The parks will be equipped with infrastructure and worker training centres in order to attract investment from large-scale apparel producers under the 'dereservation' policy.[25] Vietnam has secured access to the US market under a bilateral trade agreement and has attracted major investment in its integrated textile and apparel production facilities from Formosa Plastics, Taiwan's largest textiles producer. Other countries, such as Pakistan, Sri Lanka, Bangladesh and Cambodia, are negotiating for increased preferential access to the US and EU markets. Brazil is positioning itself to increase production of textiles through massive new investments, in order to capture a share of the expected demand for intermediate textile products from apparel exporters like China.

What can Indonesia do to position itself to take advantage of the global trade liberalisation in textiles and apparel over the next two to three years? First, it must address the supply-side problems identified above to ensure that the industry will be ready to compete on price and quality in both the domestic and international markets. This will require Indonesia to stay the course in implementing reforms at the national level while avoiding unwanted intervention at the local government level.

Reducing tariffs and taxes on medium and high-quality intermediate products will be essential for strengthening the competitiveness of Indonesian apparel products. Producers must focus on cutting costs across the entire apparel production process. The government can assist on a number of fronts in this effort, particularly by reducing taxes and tariffs on inputs, providing rapid port and customs clearance, getting rid of nuisance charges and improving exporters' access to working capital. While opening trade in textile inputs would put pressure on the less efficient domestic producers, it would benefit apparel producers by allowing them to gain access to higher-quality fabrics and other inputs at competitive international prices.

Second, Indonesia will need to develop a strategy to address the market access problems it will experience as the quota regime is replaced by open international trade in textiles and apparel. Among the key issues will be an ability to work within the WTO to negotiate lower ATC tariffs in the Doha Round and thereby alleviate the disadvantage of exclusion from preferential trade agreements. Reducing ATC tariffs on textile and apparel manufactures will mitigate the effects of preferential trading arrangements that divert trade away from competitive non-member producers.

If steep tariff reductions prove to be unworkable at the WTO, Indonesia will need to consider adopting a strategy that incorporates regional or bilateral free trade agreements. Development of a capacity to negotiate and implement such agreements effectively would then have a very high priority. Regional production-sharing arrangements may be a part of such a strategy. However, for arrangements of this type to be effective, the government will need to strengthen reform efforts in customs administration and related areas.

Finally, Indonesia must improve its capacity to address new forms of protection. In the new situation, contingent forms of protection such as anti-dumping, safeguards and restrictive rules of origin are likely to pose barriers to export expansion in major markets for apparel producers in developing countries. Indonesia must be prepared to respond effectively to these new threats if it is to maintain market access for its exporters.

NOTES

1 In 2001, textiles and apparel accounted for 16.5% of total non-oil exports, down from 17.2% in 1995, but nevertheless remaining the largest component of non-oil exports (World Bank 2003). According to the annual survey of large and medium-sized manufacturing, textiles and apparel accounted for 25% of total sectoral employment, 15% of gross output, but only 5% of total value added (BPS 2002).

2 Most quotas were assigned a base growth rate prior to 1995 which varied by product and country.

3 Not all developing countries have taken the same position on WTO negotiations over trade in textiles and apparel. For example, in 2002 a group of developing country members led by India, China, South Korea and Hong Kong proposed an accelerated schedule for the elimination of quotas. The US and the EU declined to discuss such an accelerated schedule. Had the proposal been accepted, the resulting debate would probably have pitted smaller developing countries and preferential suppliers against the low-cost Asian producers, since the benefits of an accelerated phase-out would be more likely to accrue to the large producers in Asia to the detriment of smaller producers.

4 The authors define a quota as constraining if it was at least 90% filled.

5 Quota category 331 (cotton gloves) and category 644 (women's and girls' synthetic fibre suits) are the two categories where Indonesia was the only quota-constrained shipper to the US. Exports of the former earned Indonesia $3.9 million in the US market in 2001, and exports of the latter $15.5 million.

6 Quota categories 350 and 650 (cotton and synthetic fibre robes) and category 331 (cotton gloves) will be at least partially integrated in 2002. Exports in the former category earned Indonesia $12.9 million in the US market in 2001.

7 Preferential suppliers to the US market generally have the highest average growth rates in their quotas, but these are for special quotas that have restrictive rules of origin requiring the use of US cut and formed fabrics.

8 China's entry into the WTO entitles it to the quota growth rates presented in table 1 and the simultaneous elimination of quotas from the first two phases and scheduled third stage of quota removal as of 1 January 2002. In addition, Pakistan has received liberal treatment in access to quotas for its cooperation in the war on terrrorism.

9 Recent history suggests that Indonesia performs better in quota-constrained markets. For example, from 1995 to 2000 it was able to increase its market share in the (mainly quota-constrained) US and EU markets from 2.06% to 2.27%, while its share in other industrialised countries (Japan, Australia, New Zealand and Israel—all non-quota-constrained) decreased from 2.81% to 2.39% (World Bank TradeCAN database, 2002).

10 See table 3 for the relative positions of Indonesia and China in quota categories liberalised in 2002.

11 The WTO has estimated that 42% of world trade by volume was on a preferential basis in 1993–97, and it is likely that the share is now close to 50%. See the WTO homepage for further analysis (www.wto.org/).

12 The GSP provides a mechanism for developed countries to grant preferential access to less developed countries as an exception to the WTO Most Favoured Nation clause. Preferential access granted to less developed countries is selective and discriminatory, in contrast to the multilateral nature of the WTO.

13 Designated textile materials include all US cut and formed fabrics and yarns, certain foreign fabrics cut in the US, fabrics considered in short supply, and regional yarns for knitting (Minor 2002).

14 In the case of Mexico, under the terms of the NAFTA agreement the US has eliminated quota restrictions on imports of textiles and apparel, but imposed highly restrictive 'yarn-forward' rules of origin instead (Cameron and Tomlin 2000). The restrictive NAFTA rules of origin ensure that Mexican apparel exporters have a strong incentive to use intermediate textile products from within NAFTA, chiefly the US.

15 Contributing to the differential in effective duties paid by Indonesia and other countries (including China) is the general compositional bias in US tariffs against low-end textiles and apparel.

16 The source of these data is the Office of Textiles and Apparel, US Department of Commerce. The data tables are available from the authors upon request.

17 For example, in 2005 the average rate of duty on imported textile and apparel products will be reduced from 25% to 11%. Duties on chemicals, meanwhile,

will be reduced from 35% to one of three levels: 0%, 5.5% or 6.5%.

18 Toida and Uemura (2002) show that the rupiah fell by approximately 75% against the dollar between the onset of the Asian crisis and year-end 1997, while other Asian currencies fell by at most 50%.

19 Two strong safeguards included as a condition for China's accession to the WTO may reduce the threat of surges in Chinese exports. However, it seems unlikely that developed country producers would apply safeguards against China without having plans for the use of trade remedies against other exporters. For this reason, developing countries have been arguing for a moratorium on anti-dumping actions for the first few years following the full implementation of the ATC in 2005. Developed countries have steadfastly rejected this proposal, however.

20 Note that further increases in fuel, electricity and transport prices were announced in early January 2003.

21 The Ministry of Manpower has announced more moderate UMP increases for 2003 of 6.8% for Jakarta and 14.0% for West Java (*JP*, 8/1/03).

22 The API expects labour disputes to moderate in 2003, as a result of workplace agreements and better communication between factory owners and workers.

23 This assumes that energy and fuel represent approximately 5–6% of total costs in textiles, while labour accounts for roughly 20% of garment production costs (BPS 2002).

24 See James, Ray and Minor (2002: 13) for some examples of local nuisance charges on employment and labour.

25 Apparel production in India will no longer be reserved for small-scale enterprises. Under the de-reservation policy, the sector will be open to investment in large and medium-scale production facilities.

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